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VIA EXPRESS MAIL LABEL NUMBER HB309358863

Trademark Trial and Appeals Board/ No Fee Patent and Trademark Office Assistant Commissioner for Trademarks 2900 Crystal Drive Arlington, VA 22202-3513

Re: Galleon, S.A. et al. v. Havana Rum & Liquors, S.A. et ano.,

Cancellation no. 24,108

Dear Trademark Office Staff:

Enclosed please find an original and two copies of a Motion For Leave To File Accompanying Memorandum Of Law In Further Support Of Respondents' Motion To Dismiss Petition, And In Opposition To Petitioners' Request For Leave To Replead In The Alternative, and an original and two copies of accompanying memorandum of law, in connection with the above-referenced matter.

Thank you for your attention.

Very truly yours,

Caroline Rule

CR/mp

Enclosure cc: William R. Golden, Jr. Kelley Drye & Warren THE UNITED STATES PATENT AND TRADEMARK OFFICE ORE THE TRADEMARK TRIAL AND APPEAL BOARD

MAB

CALLEON S.A.,

BACARDI-MARTINI U.S.A., INC., and BACARDI & COMPANY LIMITED,

Cancellation No. 24108

Petitioners,

rennoners,

-against-

HAVANA CLUB HOLDINGS, S.A. and HAVANA RUM & LIQUORS, S.A. d/b/a H.R.L., S.A.,

Respondents.

Registration No. 1,031,651

ORIGINAL

# 1

MOTION FOR LEAVE TO FILE ACCOMPANYING MEMORANDUM OF LAW IN FURTHER SUPPORT OF RESPONDENTS' MOTION TO DISMISS THE PETITION AND IN OPPOSITION TO PETITIONERS' REQUEST FOR LEAVE TO REPLEAD IN THE ALTERNATIVE

PLEASE TAKE NOTICE that respondents Havana Club Holding, S.A., and Havana Rum & Liquors, S.A., hereby moves the Trademark Trial and Appeals Board for an Order granting permission for respondents to file their Reply Memorandum Of Law In Further Support Of Respondent's Motion To Dismiss The Petition, submitted herewith. As is addressed more fully in that accompanying reply memorandum of law, petitioners' opposition to respondents' motion to dismiss, as did the petition, avoids the real issues in this case and attempts to disguise those issues in irrelevant assertions of law and fact. In addition, petitioners request leave to replead their petition in the alternative, and their opposition is thus in the nature of a cross-motion. The accompanying reply memorandum of a law demonstrates

that there is no reason for this Board to permit petitioners to replead their inadequate claims. For these reasons, respondents respectfully request that this Board consider the accompanying reply memorandum of law.

Dated: New York, New York April 1, 1996

Respectfully submitted,

RABINOWITZ, BOUDIN, STANDARD, KRINSKY & LIEBERMAN, P.C.

By:

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#### **CANCELLATION NO. 24108**

#### CERTIFICATE OF EXPRESS MAILING AND SERVICE

Date of Deposit: April 1, 1996

I hereby certify that this Motion For Leave To File Accompanying Reply Memorandum Of Law In Further Support Of Respondents' Motion To Dismiss The Petition is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service under 37 C.F.R. § 1.10 on the date indicated above, addressed to:

Express Mail label number: HB309358863

Trademark Trial and Appeals Board Patent and Trademark Office 2900 Crystal Drive Arlington, Virginia 22202-3513

Express Mail label number: HB309358852

William R. Golden, Esq. Kelley Drye & Warren 101 Park Avenue New York, NY 10178

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PRE

IN THE UNITED STATES PATENT AND TRADEMARK OF RESERVED BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD.

Cancellation No. 24,108

ORIGINAL

GALLEON S.A., BACARDI-MARTINI U.S.A, INC., and BACARDI & COMPANY LIMITED,

Petitioners,

v.

HAVANA CLUB HOLDINGS, S.A. and HAVANA RUM & LIQUORS, S.A. d/b/a H.R.L., S.A.,

Respondents.

Registration No. 1,031,651

REPLY MEMORANDUM OF LAW IN FURTHER SUPPORT OF RESPONDENTS' MOTION TO DISMISS THE PETITION

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DATED: April 1, 1996

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## IN THE UNITED STATES PATENT AND TRADEMARK OFFICE BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

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Cancellation No. 24108

GALLEON S.A., BACARDI-MARTINI U.S.A., INC., and BACARDI & COMPANY LIMITED,

Petitioners,

-against-

HAVANA CLUB HOLDINGS, S.A. and HAVANA RUM & LIQUORS, S.A. d/b/a H.R.L., S.A.,

Respondents.

Registration No. 1,031,651

REPLY MEMORANDUM OF LAW IN FURTHER SUPPORT OF RESPONDENTS' MOTION TO DISMISS THE PETITION

#### INTRODUCTION

Havana Club Holdings, S.A. and Havana Rum & Liquors, S.A., respondents in this cancellation proceeding, respectfully submit this reply memorandum of law in further support of their motion to dismiss the petition in its entirety pursuant to Fed. R. Civ. P. 12(b)(6) for failure to state a claim upon which relief can be granted. Petitioners' opposition to respondents' motion to dismiss attempts to cloak inadequate grounds for a cancellation proceeding with layers of obfuscation and issue-avoidance, as did the petition. In addition, petitioners' opposition is in the nature of a cross-motion, as they request leave to replead the petition in the alternative. Consequently, respondents respectfully request that the Board consider this reply brief.

Petitioners have brought this petition for cancellation, based largely on allegations of fraud in obtaining the registration, almost twenty years after the registration of the mark HAVANA CLUB was issued to Cubaexport, the original registrant and respondents' assignor. As petitioners themselves state: "The HAVANA CLUB and DESIGN mark was registered in the United States Patent and Trademark Office . . . on January 27, 1976, based on a purported Cuban Registration No. 110,353, dated February 12, 1974, pursuant to Section 44 of the Lanham Act." (Pet. 1 ¶ 17.)

Petitioners ground their petition on the alleged rights of an unrelated entity, Arechabala, S.A., a former Cuban company which they assert once registered this mark in the United States forty-three years ago in 1953. (Pet. ¶ 20.) Petitioners have not, however, alleged that Arechabala, S.A. opposed the instant registration of the HAVANA CLUB mark twenty years ago, or attempted to have the registration cancelled in the five years before it became incontestible. Nor have petitioners alleged in the petition, or argued in their memorandum of law, that they have or had any relationship whatsoever with Arechabala, S.A; petitioners are thus third parties who do not claim ever to have had any prior interest in the HAVANA CLUB trademark.

As respondents pointed out numerous times in their moving papers, the petition nowhere alleges that Arechabala, S.A. or anyone else was using the HAVANA CLUB mark in the United States (or, indeed, anywhere in the world) in 1974 when Cubaexport applied to register the mark. Indeed, the petition does not allege that Arechabala, S.A. ever used the

<sup>&</sup>lt;sup>1</sup>The petition will be cited as "Pet."

mark -- or even existed -- after 1960 when that company's former property was nationalized by the Cuban government. (Pet. ¶ 22.)

In their opposition to respondents' motion to dismiss, petitioners have not denied that the petition lacks allegations that the mark was in use in 1974 (Pet. Mem.<sup>2</sup> p.20 n.8) when Cubaexport applied for this registration; indeed, petitioners acknowledge that "the Petition is silent as to whether the HAVANA CLUB and DESIGN mark associated with Jose Arechabala, S.A. was still in use in 1976." (Pet. Mem. p.13.) Nor do petitioners, in requesting leave to amend their petition, state that they would or could make this allegation, which, as is demonstrated *post*, is *essential* to their claims of fraud.<sup>3</sup> The lack of any allegation of use of the HAVANA CLUB mark after 1960, and petitioners' concession that they cannot make this allegation, is fatal to the fraud allegations of the petition as a matter of law.

Petitioners claim abandonment in addition to fraud. Less than six months ago, this Board decided *Jose Ma. Arechabala Rodrigo* v. *Havana Rum & Liquors, S.A.*, Cancellation No. 22,881 (T.T.A.B. Oct. 19, 1995) (hereinafter "*Arechabala*"), in which the Board rejected a claim that a Cuban registrant of a Section 44 trademark in the United States had abandoned the mark when the registrant had not used the mark in the United States

<sup>&</sup>lt;sup>2</sup> Petitioners' Memorandum Of Law In Opposition To Respondents' Motion To Dismiss The Petition will be cited as "Pet. Mem."

³Petitioners state that "[n]owhere is the 1960 date [of nationalization of Arechabala, S.A.] mentioned in the petition." (Pet. Mem. p.20 n.8.) The petition does, however, state that Bacardi was nationalized in 1960, and that Arechabala, S.A. was nationalized. (Pet. ¶¶ 9, 22.) Moreover, the nationalization of Arechabala is set forth as a matter of law in Law No. 890 of October 13, 1960, published in the Gaceta Official of Cuba, which is a foreign law that this Board may consider. *See* Fed. R. Civ. P. 44.1.

because United States trade regulations, 31 C.F.R. Part 515, barred such use. The Board held that "when a party has not used a mark in the United States because such use is prohibited by U.S. law, that party has not abandoned the mark within the meaning of Section 45 of the Trademark Act." *Arechabala*, slip op. at 17.

Arechabala and this case involve the very same trademark, but petitioners misapprehend the nature of respondents' reliance on Arechabala when they argue that the decision does not have res judicata or collateral estoppel effect in this case. (Pet. Mem. pp. 2-4.) Respondents do not rely on the Arechabala case for any kind of estoppel purposes, but rather base their arguments on the dispositive legal principle set forth by this Board in that case: that nonuse of a Cuban-owned mark is excused by United States trade regulations that forbid its use. If there ever was any serious issue with respect to the validity of respondents' registration of the HAVANA CLUB trademark, that issue would have been whether the legal prohibition on the mark's use in the United States excused nonuse, and this question was answered in the affirmative in Arechabala. The facts alleged by petitioner in this case are no different from those of Arechabala and that case therefore governs on the question of abandonment.

As with their fraud and abandonment allegations, petitioners' memorandum in opposition only serves to confirm respondents' contentions as to the inadequacy of petitioners' other, secondary claims. Indeed, petitioners abandon much of their original petition in the face of respondents' motion to dismiss, declining to defend many of their claims and

theories.<sup>4</sup> Even as to those claims to which petitioners cling, they do not address the issues raised and authorities cited by respondents, relying instead on quite irrelevant arguments.

On this petition, and under these circumstances, there is no justification for subjecting the Board and respondents to burdensome litigation. Indeed this litigation, if permitted to continue, will entail expansive discovery by respondents' commercial rival pursued probably on three continents and exploring events and subjective states of mind more than twenty years old. It is precisely the function of Rule 12(b)(6) of the Federal Rules of Civil Procedure to avoid such burdens when necessary by allowing for scrutiny of a petition's adequacy at the outset.

#### **ARGUMENT**

I. PETITIONERS HAVE NOT PLEADED ANY MATERIAL FRAUDULENT STATEMENTS ALLEGEDLY MADE BY CUBAEXPORT, THE ORIGINAL REGISTRANT OF THE HAVANA CLUB TRADEMARK, UPON WHICH ISSUANCE OF THE CURRENT REGISTRATION DEPENDED

It is significant that petitioners preface their entire argument with an assertion that they have pleaded fraud with sufficient particularity to satisfy the requirements of Rule 9(b) of the Federal Rules of Civil Procedure, indicating that they understand their petition for cancellation to rest primarily on allegations of fraud.<sup>5</sup>

<sup>&</sup>lt;sup>4</sup>Petitioners declined to defend their "Treaty Violations" claim (Pet. ¶ 42), which respondents demonstrated to be unfounded, (Resp. Mem. pp.40-47). In addition, although the factual statement of petitioners' memorandum mentions the petition's allegation that assignment of the United States registration of the HAVANA CLUB trademark "was in violation of the Cuban Assets Control Regulations," (Pet. Mem. p.8), petitioners do not argue that this (mistaken) assertion has any relevance to their cancellation petition. These claims accordingly must be dismissed. (Pet. ¶¶ 37, 48).

<sup>&</sup>lt;sup>5</sup>As was demonstrated in respondents' moving papers (Resp. Mem. pp.5-13), the petition fails under Rule 9(b) because petitioners have not alleged specific material fraudulent

By their failure to defend their positions against respondents' arguments, petitioners have effectively conceded the inadequacy of three of their allegations of fraud. Petitioners do not address respondents' contention that, in 1976, when this application was filed, Section 44 of the Lanham Act did not require the owner of a foreign trademark to allege an intent to use the mark in the United States, *Arechabala*, slip op. at p.11 n.5, so their allegation of fraud based on a lack of intent to use the mark is groundless. (Resp. Mem. pp.7-8.) They do not address respondents' argument that allegations that Cubaexport knew it was not the owner of the HAVANA CLUB trademark in the United States when it filed its Section 44 application are meaningless because a Section 44 registrant does not have to allege

statements made by Cubaexport. Petitioners' citation of the general standards governing dismissal of a complaint (Pet. Mem.pp. 4-5) ignores the fact that pleadings pertaining to fraud must satisfy a higher standard of specificity. "Rule 9(b) requires that the pleadings contain explicit rather than implied expression of the circumstances constituting fraud." King Automotive, Inc. v. Speedy Muffler King, Inc., 212 U.S.P.Q. 801, 802-03, 667 F.2d 1008, 1010 (C.C.P.A. 1981) (emphasis added). "[F]raud in the procurement must be alleged with specificity as required by Rule 9(b), both in federal court and in PTO administrative proceedings." San Juan Products, Inc. v. San Juan Pools of Kansas, Inc., 7 U.S.P.Q.2d 1230, 1233, 849 F.2d 468, 473 (10th Cir. 1988)

Although the petitioners acknowledge the petition's silence on whether the HAVANA CLUB mark was still in use in 1976, they then argue that the Board should disregard this deficiency in pleading and suggest that it is somehow respondents' responsibility to refute an allegation that has not even been made. (Pet. Mem. p.13.) In arguing that it cannot be concluded from the petition's silence on this issue that the HAVANA CLUB mark was not being used by anyone when Cubaexport filed its section 44 application, petitioners ask this Board to manufacture hypothetical factual assertions and *then* require respondents to defend against them. Petitioners thus ask much more than that the pleadings be broadly construed, and their attempt to characterize factual allegations that they have not made -- but which are essential to their claims -- as possible "defenses" of respondents only highlights the fact that they have not alleged fraud with the specificity required by Rule 9(b).

<sup>&</sup>lt;sup>6</sup> The Memorandum Of Law In Support Of Respondents' Motion To Dismiss The Petition will be cited as "Resp. Mem."

use or ownership of a mark in the United States. (Resp. Mem. pp. 8-9.) Finally, they do not contend with the cases cited by respondents holding that fraud cannot rest on allegations of misrepresentation as to facts that would have been known to the trademark examiner, so failure to disclose a prior registration of a mark cannot constitute fraud. (Resp. Mem. pp. 10-11.)

Petitioners now place all hope on the artfully framed but hollow allegation that "Cubaexport knew that the . . . mark . . . was associated with Jose Arechabala, S.A., the original Cuban company which had previously imported and sold HAVANA CLUB rum in the United States" (Pet. ¶ 24 (emphasis added)), and on the nonsensical allegation with respect to a Section 44 registration that "Cubaexport was well aware at the time it filed its original application that it was not the owner of the mark HAVANA CLUB for rum in the United States" (Pet. ¶ 23).

A. Since Petitioners Do Not Allege That Anyone Was Using The HAVANA CLUB Mark When Cubaexport Registered It, Their Claim That Cubaexport Committed Fraud Must Fail

Impermissibly attempting to correct deficiencies in the petition, petitioners now characterize their petition as alleging that "Cubaexport, knowing full well that someone else owned the HAVANA CLUB trademark in the United States, lied in its application to the PTO ..." (Pet. Mem. p.11), but the petition itself nowhere alleges that the HAVANA CLUB mark was owned by anyone when Cubaexport filed its application to register the mark in the United States, much less that Cubaexport was aware that the mark was so owned. The most alleged in the petition is that "Cubaexport knew that the ... mark ... was associated with Jose Arechabala, S.A., the original Cuban company which had previously imported and sold

HAVANA CLUB rum in the United States" (Pet. ¶ 24 (emphasis added)), and that the mark was once registered, in 1953, to Arechabala, S.A. (Pet. ¶ 20).

These deliberately vague unelaborated allegations of an association between respondents' mark and the expired registration of a mark registered over twenty years previously cannot as a matter of law make out a claim of fraud; "an expired registration is incompetent as evidence of any presently existing rights in [a] mark." *Bonomo Culture Institute, Inc.* v. *Mini-Gym, Inc.*, 188 U.S.P.Q. 415, 416 (T.T.A.B. 1975). Thus, a mark that is no longer in use is available for adoption by any new claimant. *Bellanca Aircraft Corp.* v. *Bellanca Aircraft Engineering, Inc.*, 190 U.S.P.Q. 158, 168 (T.T.A.B. 1976). On the facts alleged in the petition, Arechabala, S.A. had not used the HAVANA CLUB mark during the fourteen years before Cubaexport filed its application to register the mark and had therefore presumptively abandoned it. Lanham Act § 45, 15 U.S.C. § 1127; *Shelby* v. *Ford Motor* 

<sup>&</sup>lt;sup>7</sup>The petition makes no allegation of why Arechabala, S.A. ceased using the mark in the United States. Of course, Arechabala, S.A. did not necessarily do so because its former assets were nationalized by the Cuban government; the assets of Bacardi itself were nationalized and yet the Bacardi company left Cuba and has continued to do business since. In any event, why Arechabala, S.A. ceased using or protecting the mark in the United States is not relevant, since the issue in this case is not whether Arechabala, S.A. could have rebutted a presumption of abandonment arising from its nonuse of the mark, but rather whether Cubaexport was entitled to rely on that presumption as a matter of law.

Nonetheless, it is worth noting that there are no allegations here that Arechabala, S.A. did what other nationalized companies have been required to do in order to avoid abandonment of their marks. In Zwack v. Kraus Bros. & Co., 237 F.2d 255 (2d Cir. 1956), cited by petitioners, for example, the former owners of a nationalized Hungarian concern demonstrated that, after the nationalization of his business, he was ready and able to manufacture goods under the trademark in the United States and was prevented from doing so only by the defendant's use of the mark. The court held that the former owners should be regarded as the equitable owner of the mark in the United States because "[t]here was neither a finding nor evidence to support a finding that [they] had abandoned their trade-marks and names." Id. at 261. In the present case, in contrast, the petition's allegations and glaring omissions indicate very clearly that Arechabala, S.A. had not used and hence had

Co., 28 U.S.P.Q.2d 1471 (C.D. Cal. 1993) (failure to sell cars for eight years constituted abandonment even though registrant had sold replacement parts during that time). An applicant to register a trademark may have knowledge that some other entity has used that mark in the past and still register the mark itself, so long as the applicant does not have knowledge that another entity is using the mark on confusingly similar goods at the time of the application. Sutton Cosmetics (P.R.) Inc. v. Lander Co, Inc., 172 U.S.P.Q. 449, 451, 455 F.2d 285, 288 (2d Cir. 1972).

Despite this authority to the contrary, petitioners make a half-hearted attempt to argue that, even if use of the HAVANA CLUB mark was discontinued from 1960 to 1974, respondents could not have used the mark as long as it had been allegedly "associated" with Arechabala, S.A.<sup>8</sup> (Pet. Mem. p.20 n.8.) But, their claim for cancellation rests on *fraud* in

presumptively abandoned any rights it had to the HAVANA CLUB mark in the United States long before the time Cubaexport applied to register the mark. Arechabala, S.A. simply did nothing to protect its mark in the United States.

Maltina v. Cawy Bottling Co., 174 U.S.P.Q. 74, 462 F.2d 1021 (5th Cir.), cert. denied, 409 U.S. 1060 (1972), is to the same effect. The plaintiff in that case was the former owner of a nationalized Cuban enterprise that had owned a trademark in the United States. Evidence showed that this former owner had made substantial efforts to use the trademark in the United States beginning immediately after the nationalization of the Cuban business, and the court held that the United States trademark therefore belonged to the former owner.

<sup>&</sup>lt;sup>8</sup>It is a curiosity of the petition worth noting that petitioners allege that *they* intend to advertise, distribute and sell rum under the HAVANA CLUB trademark (Pet. ¶ 14), thereby conceding that the mark is no longer "associated with" Arechabala, S.A today, or that a prior "association" is not sufficient basis for precluding registration of a mark. Petitioners apparently believe that any "association" between the mark and Arechabala, S.A. has been dissipated in the thirty-five years since Arechabala, S.A. ceased using the mark, but do not distinguish or support with factual allegations their belief that such association existed in 1974, fourteen years after the mark was no longer used.

Likewise, the petition itself acknowledges that "American consumers are well aware due to the long-standing embargo of items manufactured in Cuba, [that] rum produced there cannot at present be lawfully sold in or imported into the United States" (Pet. ¶ 12),

the application for registration not on ownership of the mark, an issue never raised in the last twenty years by the alleged prior owner. Even if there might have been some residual recognition of the HAVANA CLUB mark fourteen years after its use was discontinued, Cubaexport nonetheless would have had a reasonable belief of its right to use the mark, even if it had knowledge that the mark had once been used many years before. As the Board held in *UMC Electronics Co.* v. *UMC Industries, Inc.*, 184 U.S.P.Q. 319, 320 (T.T.A.B. 1974), an applicant with an adequate reason to believe that it has the right to register a mark does not commit fraud in applying for registration. Cubaexport thus cannot be charged with fraud. (See Resp. Mem. pp.12-13.)

Consequently, even if the words "associated with" were sufficient to allege that in 1974 there was some residual recognition of the HAVANA CLUB mark in the United States as being the mark used by Arechabala S.A., and even if Cubaexport knew of this recognition, the allegation would still fail to make out a claim of fraud. Any purported right of Arechabala, S.A. to the mark in 1974 would have been so tenuous and clearly disputable that a statement by Cubaexport that it did not know of anyone with a "superior" right to use the mark in the United States could not have been fraudulent. See Electronic Realty

Associates, Inc. v. Extra Risk Associates, Inc., 217 U.S.P.Q. 810, 814 (T.T.A.B. 1982) (if opinions may differ with respect to an assertion, that assertion cannot be fraudulent). (See also cases cited at Resp. Mem. pp.21-22.)

thus negating any assertion that in 1974 United States consumers would have confused respondents' use of the mark with Arechabala, S.A.'s pre-revolution use of the mark.

In San Juan Products, Inc. v. San Juan Pools of Kansas, Inc., 7 U.S.P.Q.2d 1230, 849 F.2d 468 (10th Cir. 1988), the court held that a declaration would be false if it "fail[ed] to acknowledge conflicting rights . . . which are clearly established, by a court decree, by the terms of a settlement agreement, or by a registration." 7 U.S.P.Q.2d at 1234, 849 F.2d at 473 (emphasis added) (citing Rosso and Mastracco, Inc. v. Giant Food Inc., 219 U.S.P.Q. 1050, 1053, 720 F.2d 1263, 1266 (Fed. Cir. 1983)). The polition does not set forth any comparable averment that anyone's right to use the mark in 1974 was established by a definitive court decree or agreement, nor that the mark was registered. Consequently, petitioners have not made sufficient allegations that Cubaexport had any knowledge of anyone else's superior right to use the mark in the United States when it applied to register the mark. The fact that a mark may be somehow "associated" with a defunct corporation that has not used the mark for fourteen years does not clearly establish conflicting rights.

The cases cited by petitioners in support of their fraud claim do not govern this case. In *Bart Schwartz International Textiles, Ltd.* v. *Federal Trade Commission*, 129

U.S.P.Q. 258, 289 F.2d 665 (C.C.P.A. 1961), upon which petitioners rely heavily (Pet. Mem. pp.11-12), for example, the registrant applied to register the word "fiocco" as a trademark and stated in the application, as all applicants must, that he had no knowledge or belief that anyone else had a right to use the mark in commerce. The applicant, however, had full knowledge at the time he signed the application that the term "fiocco" was widely and generally used as the generic term for a type of fabric, knew therefore that *all* others had a right to use the mark in commerce, and had made a deliberate misrepresentation of fact. In contrast, in this case the petition does not (nor could it) allege that Cubaexport had knowledge

that the HAVANA CLUB mark was generic for a type of rum. Neither does the petition allege that Cubaexport had knowledge that any entity had any superior right to use the mark when it applied to register it.

In *Hank Thorp, Inc.* v. *Minilite, Inc.*, 205 U.S.P.Q. 598, 474 F. Supp. 228 (D. Del. 1979), also cited by petitioners, the United States distributor of a foreign-made product registered the foreign manufacturer's trademark in the United States with full knowledge that the foreign manufacturer owned the mark. Similarly, in *Robi* v. *Five Platters*, 16 U.S.P.Q.2d 2015, 918 F.2d 1439 (9th Cir. 1990), the registrant submitted a statement to the PTO swearing that there had been no final decision adverse to the registrant's claim of ownership after a court decree had in fact been entered adversely to registrant's claim of rights to the mark at issue, and the registrant later admitted having knowledge of the court's decision at the time it filed this sworn statement.

Despite the petition's generalized assertions that Cubaexport made false statements of fact to the PTO (and the similarly naked assertion in petitioners' memorandum of law that they have alleged "bad faith" and "scienter" on the part of Cubaexport (Pet. Mem. p.12)), petitioners have failed to set forth *any* material allegation that Cubaexport allegedly made with knowledge of its falsity. Petitioners consequently invert the parties' burdens when they argue that it is respondents' duty to prove their good faith at trial (Pet. Mem. pp.12-13); this would be true only *after* petitioners had first carried their burden of pleading specific fraudulent statements allegedly knowingly made by Cubaexport, which, as is demonstrated fully in respondents' moving memorandum of law, they have failed to do.

B. Petitioners' Allegation That Havana Club Did Not Own The Mark In The United States When It Filed Its Section 44 Affidavit Is Nonsensical And Does Not Serve As Grounds For A Fraud Claim

Petitioners frequently repeat in their memorandum of law the allegation that, at the time of its application to register the mark, Cubaexport knew "that it was not the owner of the mark HAVANA CLUB for rum in the United States" (Pet. Mem. pp.10, 11, 12). Petitioners state: "Thus the relevant allegations, indisputable at the 12(b)(6) stage, are that Cubaexport knew it did not own the HAVANA CLUB and DESIGN mark in the United States . . . . " (Pet. Mem. p.12.) As already noted (Resp. Mem. pp.8-9), however, an application to register a trademark in the United States under section 44(e) of the Lanham Act on the basis of a foreign registration inherently acknowledges that the applicant does not own the trademark in the United States, since such an application depends solely on a foreign registration and does not rest on use of the mark in this country. A statement that the applicant for registration owns the mark in the United States is thus not part of a section 44 application. Consequently, even if Cubaexport had claimed in its section 44 application that it owned the HAVANA CLUB mark in the United States, this statement would not have been material to the issuance of a section 44 registration, which in no way depends on ownership or use of a mark in this country. SCOA Industries, Inc. v. Kennedy & Cohen, Inc., 188 U.S.P.Q. 411, 414 (T.T.A.B. 1975) (fraud claim may be based only on "material information or facts which, if transmitted to and disclosed to the Examiner, would have resulted in disallowance of the registration sought"), appeal dismissed, 189 U.S.P.Q. 15, 530 F.2d 953 (C.C.P.A. 1976). Petitioners' absolute failure to address this argument is eloquent of their inability to rebut it.

C. The Cuban Nationalization Of Property In 1960 Has No Relevance To This Case

Cubaexport did not in 1974 -- nor do respondents now -- predicate registration of the HAVANA CLUB mark on the nationalization of Arechabala, S.A.'s property in 1960 either in Cuba or in the United States, nor does the petition so allege. Rather, Cubaexport registered its mark in Cuba in 1974, and then applied pursuant to Section 44 of the Lanham Act to register the mark in the United States on the basis of this Cuban registration. It is thus simply of no moment whether, as petitioners assert, "U.S. courts need not recognize title to assets traced through nationalization that do not have a situs within Cuba" (Pet. Mem. p.15), since this case does not concern who may have had title to the HAVANA CLUB mark in the United States at the time of the nationalization of Arechabala, S.A. in 1960, but rather concerns whether Cubaexport committed fraud in 1974 when it filed an application to register its newly-registered *Cuban* mark. Petitioners' discussion of the nationalization of Arechabala, S.A. in 1960 and the related act of state doctrine is beside the point with respect to their fraud (or any other) claim.<sup>10</sup>

<sup>&</sup>lt;sup>9</sup>Moreover, as stated in respondents' moving papers, even if Cubaexport had made a claim to the ownership of the HAVANA CLUB mark in the United States stemming from the nationalization of Arechabala, S.A., this would not be grounds for a fraud claim, because the Cuban nationalization decree purported to have extraterritorial effect, and Cubaexport consequently would have had grounds for a good faith *belief* that it had title to the property of Arechabala, S.A. wherever located. (*See* Resp. Mem. pp.13-15.)

<sup>&</sup>lt;sup>10</sup>Respondents discussed the act of state doctrine in their moving papers to demonstrate that the petitioner's allegation that Arechabala, S.A. was "unlawfully nationalized" (Pet. ¶ 22), could not support petitioners' claim of fraud on any theory. (Resp. Mem. pp.17-22.)

Petitioners' characterization of the act of state doctrine as prohibiting "a court from questioning the validity of acts of seizure by the Cuban government of tangible physical property located in Cuba, where just compensation has been provided" (Pet. Mem. p.15), is simply incorrect. In the seminal "act of state" case, *Banco Nacional de Cuba* v. *Sabbatino*,

376 U.S. 398 (1964), the Supreme Court held the doctrine barred a challenge to title based precisely on the ground that the nationalization was without compensation. Indeed, virtually every case applying the act of state doctrine to nationalizations rebuffed challenges to title based on the same contention of lack of compensation for the nationalization. See also, e.g., Oetjen v. Central Leather Co., 246 U.S. 297 (1918); Ricaud v. American Metal Co., 246 U.S. 304 (1918).

The whole point of the "act of state" doctrine, in fact, is to preclude United States courts from questioning the legality of foreign nationalizations on compensation or other grounds when the property in question is within the territory of the nationalizing foreign state. Banco Nacional de Cuba v. Sabbatino, 376 U.S. at 428-34. Lack of compensation is relevant only when the property in question was within the United States at the time of the nationalization and courts are called upon, as a result, to determine the compatibility of the nationalization with United States policy and law. See, e.g., F. Palicio y Compania, S.A. v. Brush, 150 U.S.P.Q. 607, 610, 256 F. Supp. 481, 487 (S.D.N.Y. 1966), aff'd on the basis of the opinion below, 154 U.S.P.Q. 75, 375 F.2d 1011 (2d Cir.), cert. denied, 389 U.S. 830 (1967).

Petitioners are equally careless in suggesting, without authority, that the act of state doctrine applies only to tangible property. The decisions are legion in which the act of state doctrine has been applied to intangibles, including debts and trademarks, and the courts have entered into extended inquiry into the situs of intangibles precisely because the act of state doctrine protects the nationalizing state's title if the situs of the intangible was located within its territory at the time of the nationalization. See, e.g., F. Palicio y Compania, S. A. v. Brush, at 490-494; Menendez v. Faber, Coe & Gregg, Inc., 174 U.S.P.Q. 607, 345 F. Supp. 527, 537-540 (S.D.N.Y. 1972), aff'd. in relevant respects sub. nom. Menendez v. Saks and Co., 179 U.S.P.Q.513, 485 F.2d 1355 (2d Cir. 1973), rev'd. in other respects sub. nom. Alfred Dunhill of London, Inc. v. Republic of Cuba, 425 U.S. 682 (1976); Maltina Corp. v. Cawy Bottling Co., 174 U.S.P.Q. 74, 462 F.2d 1021, 1024-1028 (5th Cir.), cert. denied, 409 U.S. 1060 (1972); Tabacalera Severiano Jorge, S.A. v. Standard Cigar Co., 392 F.2d 706, 715-716 (5th Cir.), cert. denied, 393 U.S. 924 (1968).

Petitioners state that "the Castro government's version of the confiscation is not in the record," (Pet. Mem. p.14), but the nationalization of the Cuban assets of Arechabala, S.A. is a matter of foreign law and the court may consider the nationalization decree, Cuban Law No. 890 of 1960, as a result. Fed. R. Civ. P. 44.1. And, contrary to petitioners' argument, the petition itself acknowledges that Arechabala, S.A. was nationalized by the Cuban government. (Pet. ¶ 22.)

Trade with Iran, Iraq, Libya and North Korea, as well as Cuba, is currently embargoed. Since World War II, the United States at various times has embargoed trade with still other countries, including China, Vietnam, Cambodia, Rhodesia, Nicaragua, and Panama. In each instance, entities within the foreign country were permitted to register and maintain trademarks in the United States notwithstanding their inability to trade. See Malloy, Economic Sanctions and U.S. Trade (1990).

owner of a Cuban registration for HAVANA CLUB rum when it applied to register the mark here. (See Pet. Mem. p.16 ("[t]he allegation that Cubaexport knew that it did not own the mark . . . in the United States is untouched even if HRL's dubious reading of the act of state doctrine is credited.")) In any event, petitioners have not addressed respondents' argument that -- even if the petition had asserted that Arechabala, S.A. owned the HAVANA CLUB mark in Cuba prior to the nationalization of that company's assets, and that Cubaexport had asserted title to that mark through the nationalization -- under the act of state doctrine any such assertion of title to the Cuban mark would not have constituted fraud because United States courts would be required to recognize the validity of the nationalization of and consequent transfer of title to Arechabala's property located in Cuba. (Resp. Mem. pp.17-22.) The decisions of the Supreme Court and numerous other courts cited in respondents' memorandum of law (Resp. Mem. pp. 18-20) are dispositive and unequivocal: the United States is bound to accept the validity of a foreign state's expropriation of property within the foreign state's territory at the time of expropriation, and must recognize title to such property traced through the expropriations. See, e.g., Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398, 416 (1964).

# II. PETITIONERS HAVE NOT SET FORTH ANY VALID CLAIM THAT THE INSTANT REGISTRATION OF THE HAVANA CLUB MARK WAS MAINTAINED THROUGH FRAUD

Petitioners' argument that the petition states a claim that Cubaexport maintained the registration of the HAVANA CLUB mark through a false Section 8 affidavit (Pet. Mem. pp. 16-18) deserves even shorter shrift. Once again, petitioners have abandoned the actual claim of the petition, which alleges only that a Section 8 affidavit filed by Cubaexport in

January of 1982, stating that the mark "is still in use on goods and services," was somehow fraudulent. (Pet. ¶ 29.)

The petition does not allege that Cubaexport's Section 8 affidavit made any claim that the mark was being used *in the United States* and, indeed, such an averment or representation was not a requirement of a Section 8 affidavit at the time Cubaexport's affidavit was filed. (Resp. Mem. p.22.) Petitioners unsuccessfully attempt to contradict respondents' showing that, in early 1982, a Section 8 affidavit was not required to allege use in commerce in the United States (Resp. Mem. pp.22-23) by citing to the legislative history of the later 1982 amendment that made such an allegation (or a valid excuse for nonuse) a requirement of a Section 8 affidavit. Apart from the fact that there would have been no need to amend the statute if it had already required a showing of use in commerce in the United States, the legislative history clearly states that "this section has been interpreted so that use in a foreign country, or use in intrastate commerce, is sufficient." H.R. No. 542, 97th Cong., 2d Sess. at 10, reprinted in 1982 U.S. Code Cong. & Admin. News 764, 774. See Cerveceria India, Inc. v. Centroamericana, S.A., 10 U.S.P.Q.2d 1064, 1067 (T.T.A.B.), aff'd, 13 U.S.P.Q.2d 1307, 892 F.2d 1021 (Fed. Cir. 1989).

At the time that Cubaexport filed its Section 8 affidavit, all that was required was that it allege use of the mark somewhere in the world, and this it did. The petition itself acknowledges that Cubaexport manufactured rum under the trademark (Pet. ¶¶ 24 28), and, through its allegations that Cubaexport intended to "deceive purchasers" (Pet. ¶ 24), that Cubaexport was selling the rum. The petition also concedes that "the 'HAVANA CLUB' rum business" is in existence. (Pet. ¶ 34.)

Apparently recognizing the unassailability of respondents' argument, petitioners now argue that Cubaexport's Section 8 affidavit was fraudulent on a wholly different ground than alleged in the petition: that Cubaexport withheld from the PTO its alleged lack of intent to use the mark in the United States. Even if this allegation had been made in the petition, however, it would be inadequate because statements of intent and motivation are not part of a Section 8 affidavit, like Cubaexport's, that alleges use.<sup>11</sup>

# III. PETITIONERS HAVE NOT ADEQUATELY PLEADED A CLAIM OF MISREPRESENTATION OF SOURCE

The allegations in the petition do not plead a claim of misrepresentation of source. The petition does not allege that respondents are using the HAVANA CLUB trademark "as part of a deliberate scheme to pass off goods as originating from a party other than the trademark owner," which is petitioners' own description of the requirements of a claim of misrepresentation of source under Section 14(3) of the Lanham Act. (Pet. Mem. p.18.) Because the petition does not even contain an allegation using the conclusory language that petitioners themselves argue is necessary, the claim must be dismissed.

<sup>&</sup>lt;sup>11</sup>At the time Cubaexport filed its Section 8 affidavit, in January of 1982, the statute required "an affidavit showing that said mark is still in use *or* showing that its nonuse is due to special circumstances which excuse such nonuse and is not due to any intention to abandon the mark." 15 U.S.C. § 1058 (U.S.C.A. 1963) (emphasis added). Since Cubaexport properly alleged use (the section was not amended until August 1982 to delete the word "still" and add the words "in commerce" after "use") in its Section 8 affidavit (Pet. ¶ 29), questions of intent to abandon had no relevance to the affidavit.

Since respondents' registration of the HAVANA CLUB mark issued well over five years ago, petitioners (as they do not dispute) are limited in their claims for cancellation to those grounds set forth in Section 14(3) of the Lanham Act.

In addition, the sole allegation contained in the Petition which even purports to connect respondent's mark with that of another company is the allegation that "Cubaexport knew that the HAVANA CLUB . . . mark . . . was associated with Jose Arechebala S.A., the original Cuban company which had previously imported and sold HAVANA CLUB rum in the United States." (Pet. ¶ 24.) The bare allegation that a mark was once "associated" with another producer who is no longer using it does not serve as the basis for a claim that a current user of the mark is deliberately attempting to pass its goods off as those of another user. Even under liberal rules of pleading, such an allegation is patently insufficient. Under the express language of Section 14(3) a mark is subject to cancellation only if it "is being used by . . . the registrant so as to misrepresent the source of goods." 15 U.S.C. § 1064(3) (emphasis added). The instant petition on its face does not conform to the plain language of Section 14(3) because, as it has been impossible to do so, respondents' trademark is not being used in the United States.

In addition, petitioners have not cited to any case authority for the proposition that a mark may be cancelled under Section 14(3) when the registrant is alleged to have passed off its goods as those of a competitor whose business in similar goods *had ceased* well before the cancellation petition. Indeed, the cases relied upon by petitioner (as well as those revealed by respondents's research) all concern situations in which both parties were selling the same product at the same time or had ongoing businesses in the same products. *See, e.g., The E.E. Dickinson Co.* v. *The T.N. Dickinson Co.*, 221 U.S.P.Q. 713 (T.T.A.B. 1984); *Liquid Glass Enterprises, Inc.* v. *Liquid Glass Industries, Ltd.*, 14 U.S.P.Q.2d 1976 (E.D. Mich. 1989). *Dickinson*, relied upon by petitioners, is therefore inapplicable here, because in that

case both parties were selling the same product at the same time and the petitioner claimed that the respondent's marks "as they are *presently being used* are confusingly similar to petitioner's . . . . " 221 U.S.P.Q. at 715 (emphasis added).

To broaden the application of Section 14(3) to cover the present situation in which there is simply no conflicting use of the mark whatsoever -- and thus no possibility of a calculated effort to confuse the public -- would be as unwise and unfair as it would be unprecedented. Not only has respondent not been able to use the mark, but the former user has not used the mark in the United States for over 35 years. There is, thus, no basis for any allegation that the mark "is being used . . . to misrepresent the source of goods." 15 U.S.C. § 1064(3).

Petitioners' attempt to distinguish *McDonnell Douglas Corp.* v. *National Data Corp.*, 228 U.S.P.Q. 45, 47 (T.T.A.B. 1985) is unsuccessful. In that case, where both petitioner and respondent used the term "Datastat" at the same time, the court rejected a 14(3)<sup>13</sup> claim, stating that the claim "must be supported by allegations of blatant misuse of the mark by respondent in a manner calculated to trade on the goodwill and reputation of petitioner." Aside from the fact that petitioners have not suggested how they have standing to assert the goodwill or reputation of Arechabala, S.A., the petition alleges only that Cubaexport knew at the time it applied for the mark that the mark HAVANA CLUB had once been associated with Arechebala, S.A. As the Board determined in *McDonnell Douglas*, in a petition to cancel a mark whose use was ongoing, "allegations of registrant's fraudulent

<sup>&</sup>lt;sup>13</sup>The statute appears to have been renumbered so that a former Section 14(c) claim is now a 14(3) claim. 15 U.S.C. § 1064 (U.S.C.A. Supp. 1995).

procurement of the registration based on misrepresentation to the Patent and Trademark Office with respect to knowledge of prior use of the mark have no bearing on a 14(c) claim of deliberate misrepresentation to the public as to the source of the goods." *Id.* at 46.

Even if petitioners' allegation of misrepresentation of source was not so easily dismissed on the ground that there is currently no "source" of HAVANA CLUB rum that could conceivably be the target of misrepresentation, the petition would still fail to make out an adequate claim. In McDonnell Douglas, the petitioner had alleged that the respondent's mark was "a simulation and colorable imitation" of petitioner's mark and that the mark "means petitioner to petitioner's customers and the public and has since long prior to the registrant's adoption and use of" the mark. Id. at 46. The court nonetheless dismissed the petition because "[p]etitioner here has alleged no specific acts by respondent in the use of its registered mark that, if proved, would amount to an attempt to create the impression that petitioner is the source of respondent's services." Id. (emphasis added). The petition here likewise alleges no such specific acts. The most that petitioners have alleged in this case (although it is doubtful whether they have even alleged this much) is a "willful adoption of a colorable imitation of a mark previously used by [Arechabala, S.A]," McDonnell Douglas, 228 U.S.P.Q. at 46, which allegation is not sufficient to make out a Section 14(c) claim. See also J.T. McCarthy, 3 McCarthy On Trademarks and Unfair Competition § 20.15[6]. As petitioners themselves concede, "alleged confusing facial similarity of . . . two marks" is not a sufficient basis for a Section 14(c) claim. (Pet. Mem. p.19.)<sup>14</sup>

<sup>&</sup>lt;sup>14</sup>Petitioners rely on Cuban Cigar Brands, N.V. v. Upmann International, Inc., 457 F. Supp. 1090, 199 U.S.P.Q. 193 (S.D.N.Y. 1978), aff'd, 607 F.2d 995 (2d Cir. 1979), which was distinguished in McDonnell Douglas on the ground that the 14(c) claim in Cuban Cigar

## PETITIONERS HAVE NOT PLEADED AN ADEQUATE CLAIM THAT THE HAVANA CLUB MARK HAS BEEN ABANDONED

A. Petitioners Have Not Set Forth Sufficient Allegations Concerning Nonuse of the HAVANA CLUB Trademark When It Is Legally Impossible For The Respondents To Use The Mark In The United States

Less than six months ago, in *Jose Ma. Arechabala Rodrigo* v. *Havana Rum & Liquors, S.A.*, Cancellation No. 22,881 (T.T.A.B. Oct. 19, 1995), this Board held that the United States registration of the HAVANA CLUB mark had not been abandoned because the existence of United States Treasury Department regulations barring use of the trademark in this country excused such nonuse as a matter of law. Slip op. at p.19. Petitioners' opposition never comes to terms with the *Arechabala* decision (*See* Resp. Mem. p.32-33), other than falsely to characterize respondents' reliance on that decision as being "factual in nature" (Pet. Mem. at p.21).

United States Treasury regulations, in existence since 1963, have banned the importation of merchandise from Cuba, 31 C.F.R. §§ 515.201 & 515.204, and forbidden the use in the United States of any trademark in which a Cuban national has an interest, 31

Brands "rested on the defendant's deliberate efforts to confuse the public and to encourage the public to recognize its products for those of plaintiff." McDonnell Douglas, 228 U.S.P.Q. at 47. (Pet. Mem. p.19.) In Cuban Cigar Brands, the defendant, whose cigars had been made in Florida and Honduras but never in Cuba, included in its brochure a "story" which stated: "Fine Havana cigars are not really gone, they have just moved to Honduras for the Duration"; described the cigars as being made by "Cuban expatriates [sic] experts"; and stated that the cigars would "relieve the disappointed consumer who longs for fine Havana cigars." 457 F. Supp. at 1099. This brochure, used along with the same name as a famous Cuban cigar brand, whose prior Cuban owner had not abandoned the mark but began selling cigars in the United States as soon as unrelated litigation over its ownership of the mark was completed, "could only be designed to suggest" that the cigars were the "authorized substitute" for the former Cuban cigars. In sharp contrast, petitioners here have alleged only that the HAVANA CLUB mark was "associated" with Arechabala, S.A., which entity they have not alleged even used the mark subsequent to 1960.

C.F.R. §§ 515.201 & 505.311, since long before the instant registration of the HAVANA CLUB mark issued. The Board in *Arechabala* therefore concluded:

The record clearly shows that for now and for the entire relevant time frame it is and has been legally impossible for respondents to use their mark in the United States. This excuses their nonuse of the mark under the Trademark Act.

Slip op. at p.19 (emphasis added). The only "record" necessary to show that it is and has been impossible for the respondents to use their HAVANA CLUB mark in the United States is the existence of the Treasury Department's Cuban Assets Control Regulations, 31 C.F.R. Part 515, which is indisputable as a matter of law and, indeed, is freely acknowledged in the petition. (Pet. ¶ 33.)

Consequently, the legal holding of *Arechabala* -- that nonuse of a trademark is excused when a trade embargo makes it impossible for a foreign registrant to use its mark in the United States -- is controlling in this case, not as a matter of res judicata or collateral estoppel, but simply through the application of stare decisis. Because it has been legally impossible for respondents to use their mark in the United States since they registered it, their nonuse of the mark is excused. "[W]hen a party has not used a mark in the United States because such use is prohibited by U.S. law, that party has not abandoned the mark within the meaning of section 45 of the Trademark Act." *Arechabala*, slip op. at p.17.15

<sup>&</sup>lt;sup>15</sup>Western Worldwide Enterprises Group, Inc. v. Qinqdao Brewery, 17 U.S.P.Q.2d 1137, 1139 n.5 (T.T.A.B. 1990), cited by petitioners (Pet. Mem. p.21) is consequently irrelevant, because the cited footnote in that case stated only that a factual affidavit and attached exhibits would not be considered in a motion to dismiss. Respondents have submitted no affidavits in support of their motion, nor have they any need to do so. While respondents did submit a copy of a Cuban law to the Board in connection with petitioners' allegations of fraud, they did so purely for the Board's convenience; the law may be found in the Library of Congress and the determination of foreign law is itself a question of law, not

Petitioners cite *Imperial Tobacco Ltd.* v. *Philip Morris, Inc.*, 14 U.S.P.Q.2d 1390, 899 F.2d 1575 (Fed. Cir. 1990) for the proposition that the question whether nonuse is excused is necessarily a factual issue. The Board was well aware of the *Imperial Tobacco* case when it decided *Arechabala*, however, since the parties to *Arechabala* cited the case to the Board. In asking the Board on the basis of *Imperial Tobacco* to rule that the existence of the trade regulations does not in and of itself rebut the presumption of abandonment that would otherwise arise from nonuse, petitioners in effect ask the Board to overrule *Arechabala* and come to a different legal conclusion than it did six months ago.

In any event, *Imperial Tobacco* does not contradict this Board's holding in *Arechabala*. In that case, the court stated only that a registrant cannot overcome the presumption of abandonment normally arising from nonuse of a mark for over two years simply by alleging a subjective intent to resume use; this rule obviously does not apply where nonuse is excused as a matter of law and the presumption of abandonment therefore has no effect. Moreover, in *Philip Morris*, the court acknowledged that: "Intent to resume use in abandonment cases has been equated with a showing of special circumstances which excuse a registrant's nonuse." 14 U.S.P.Q.2d at 1394, 899 F.2d at 1580. The Board in *Arechabala* reached the legal conclusion that the United States Treasury regulations "excuse . . . nonuse of the mark under the Trademark Act," thus setting forth a legal rule that the Cuban Assets Control Regulations are to be equated with special circumstances that excuse nonuse.

Because in *Arechabala* the Board held that the trade regulations rebutted the presumption of abandonment as a matter of law, petitioners cannot rely on respondents'

fact. Fed. R. Civ. P. 44.1

nonuse of the mark to raise a presumption of abandonment. Societe Anonyme des Parfums le Galeon v. Jean Patou, Inc., 181 U.S.P.Q. 545, 492 F.2d 1265 (2d Cir. 1974), relied upon by petitioners for the proposition that a trademark registration cannot be maintained unless there is a good faith use of the mark (Pet. Mem. p.22), is not relevant in these circumstances. First, Section 8 of the Lanham Act itself provides that a mark can be maintained if "nonuse is due to special circumstances which excuse such nonuse." 15 U.S.C. § 1058(a). Second, the petition alleges only that Cubaexport, "had no intent to use the mark in the United States when it filed its application, and, indeed, knew such use would be unlawful." (Pet. ¶ 27 (emphasis added).) As stated in respondents' memorandum of law and not disputed by petitioners, however, a Section 44 applicant was not required to allege an intent to use their mark in the United States at the time Cubaexport filed its application. Arechabala, slip op. at p.11 n.5.

In addition, it was only *after* holding as a matter of law that the existence of the trade regulations in itself excuses nonuse and rebuts any presumption of abandonment, that the Board in *Arechabala* went on to find *as well* that "[t]he record is *also* clear that respondents use the mark world-wide . . . and they intend to use the mark in the United States as soon as it is legally possible to do so. Slip op. at p.19 (emphasis added). This appears to have been an alternative ground for the Board's decision, but the Board's first holding is sufficient to control this action.<sup>16</sup>

<sup>&</sup>lt;sup>16</sup>Petitioners fail to distinguish between the two bases for the *Arechabala* decision: *first*, that the trade regulations themselves rebut any presumption of abandonment; and *second* that there was evidence in that case that the respondents had not intended to abandon the mark. In light of the first holding, petitioners' reliance on the "evidentiary showing" made in *Arechabala* as precluding dismissal of their petition is misplaced. (Pet. Mem. p.3.)

But, even if Arechabala had left an open question whether intent to abandon remains an issue in a case where nonuse of a mark in which a Cuban entity has an interest is excused by the trade regulations, petitioners have not pleaded an adequate claim of intent to abandon. Petitioners have alleged nothing more than a bare, unadorned conclusion, without a scintilla of supporting factual allegation, that respondents did not intend to use the mark in the United States but rather intended to "foreclos[e] others from rightfully using the mark." (Pet. ¶ 27.) Numerous cases demonstrate that such a bald and conclusory assertion of intent is insufficient as a matter of law to state a claim for relief. See, e.g., Gagliardi v. Village of Pawling, 18 F.3d 188, 195 (2d Cir. 1994) ("bald and uncorroborated allegation" of intent "insufficient to withstand a motion to dismiss"; plaintiff must "allege facts from which [such] intent on the part of the defendants reasonably may be inferred"); Murphy v. Lane, 833 F.2d 106, 108 (7th Cir. 1987) (where plaintiff alleges retaliatory intent, complaint must "allege a chronology of events from which retaliation may be inferred. Conversely, alleging merely the ultimate fact of retaliation is insufficient") (quotations and citation omitted) (emphasis added). See also Schultea v. Wood, 47 F.3d 1427, 1431 (5th Cir. 1995) (en banc) ("the Federal Rules of Civil Procedure have, since their inception in 1938, insisted on more than conclusions, and in this sense, have never been a system of notice pleading"); United States v. AVX Corp., 962 F.2d 108, 115 (1st Cir. 1992) (court should not credit "bald assertions" or "unsubstantiated conclusions" when reviewing a motion to dismiss); Ascon Properties, Inc. v. Mobile Oil Co., 866 F.2d 1149, 1155 (9th Cir. 1989) ("conclusory allegations without more are insufficient to defeat a motion to dismiss") (quotations omitted).

These principles apply in trademark law as well. For example, in *Berni* v. *International Gourmet Restaurants of American, Inc.*, 838 F.2d 642, 647 (2d Cir. 1988), the court held that the plaintiffs, who claimed lack of intent to transfer a trademark, "must plead *facts* that permit the inference that [they] did not intend to transfer their interest in the mark." The court affirmed the dismissal of the case because "the complaint [was] devoid of facts that might establish the [appellants'] intention." *Berni* thus confirms that a bare conclusory allegation of intent is insufficient; a pleading must contain some underlying facts that would permit the inference of the necessary intent. Petitioners have pleaded absolutely no such underlying facts in this case.

Moreover, permitting the mere assertion of intent not to resume use to support a claim for abandonment would directly conflict with the established rule that a trademark holder cannot defeat objective evidence of abandonment merely by interposing a conclusory assertion that it intends to use the mark again in the future. See, e.g., Imperial Tobacco Ltd. v. Philip Morris, Inc., 14 U.S.P.Q.2d 1390, 1394-95, 899 F.2d 1575, 1581 (Fed. Cir. 1990); American Photographic Publishing Co. v. Ziff-Davis Publishing Co., 135 F.2d 569, 573 (7th Cir. 1943). If such a conclusory assertion of intent is insufficient, it follows a fortiori that the entirely unsupported allegation of intent by petitioners here should be deemed insufficient to compel respondents to defend against a legally and factually groundless abandonment claim.

Requiring a petitioner to plead more than a mere conclusory assertion of intent has particular force in the context of abandonment proceedings, where the result is a forfeiture of rights and the rule is well-settled that a petitioner must demonstrate abandonment by clear and convincing proof. See, e.g., Seidelmann Yachts Inc. v. Pace Yacht Corp., 14 U.S.P.Q.2d

1497, 1501 (D. Md. 1989), *aff'd*, 13 U.S.P.Q.2d 2025, 898 F.2d 147 (4th Cir. 1990) ("both non-use and intent not to resume must be strictly proved") (collecting cases). In addition, the heightened pleading requirement for intent in fraud actions<sup>17</sup> should control in this case since petitioners' claim of abandonment rests on no more than an allegation of lack of intent to use the mark at the time of its registration, which is precisely the same allegation that underlies petitioners' inadequate fraud claim. (Pet. ¶ 27.)

Petitioners should not be permitted to get away with their scant pleading. As the Supreme Court explained, "permitt[ing] a plaintiff with a largely groundless claim to simply take up the time of a number of other people, with the right to do so representing an *in terrorem* increment of the settlement value, rather than a reasonably founded hope that the process will reveal relevant evidence, . . . is a social cost rather than a benefit." *Blue Chip Stamps* v. *Manor Drug Stores*, 421 U.S. 723, 741 (1975). *See also* 5 C.A. Wright & A.R. Miller, *Federal Practice and Procedure* § 1296 at 578-80 (1990) ("[a]llegations of fraud . . . frequently are advanced only for their nuisance or settlement value and with little hope that they will be successful"). If pleadings such as this suffice, that "social cost" will be paid by

stated in the pleadings varies depending on the case's context." Boston & Maine Corp. v. Town of Hampton, 987 F.2d 855, 866 (1st Cir. 1993) (quoting United States v. AVX Corp., 962 F.2d 108, 155 (1st Cir. 1992)); Scully Signal Co. v. Joyal, 881 F. Supp. 727, 735 (D.R.I. 1995) (same). Likewise, "the district court may be allowed discretion to impose heightened specificity requirements with fair notice that it is doing so," Boston & Maine Corp., 987 F.2d at 867; Socha v. National Assoc. of Letter Carriers, 883 F. Supp. 790, 796 (D.R.I. 1995) (same). The Court's holding in Associated General Contractors of Cal. v. California State Council of Carpenters, 459 U.S. 519, 528 n.17 (1983) -- "[c]ertainly in a case of this magnitude, a district court must retain the power to insist upon some specificity in pleading before allowing a potentially massive factual controversy to proceed" -- is equally applicable here.

the Board and the respondents in this case, but will also be paid again and again as challenges are mounted on bare-bones and conclusory allegations of intent to the numerous marks registered in the United States by entities from embargoed countries. To avoid this unfair result, a petitioner must plead some objective facts to support an allegation that the registrant never intended to use the mark; otherwise, every trademark-registrant subject to a trade embargo would be forced to undergo the burden and expense of discovery and litigation on the basis of a plainly meaningless allegation in this context that it is not using the mark, coupled with a *pro forma* and purely conclusory allegation of lack of intent to use.

In this situation, petitioners "should not be required to come forward with their witnesses from all over the world to defend the action . . . . " *Decker v. Massey-Ferguson, Ltd.*, 681

F.2d 111, 121 (2d Cir. 1982). 18

It is not surprising, then, that in response to respondents' arguments, petitioners have cited no authority sustaining a purely conclusory allegation of lack of intent to use as being sufficient to state a claim where, as here, there is no inference of intent to be drawn from nonuse of the mark. Petitioners' reliance on *Societe Anonyme des Parfums le Galeon* v. *Jean Patou, Inc.*, 181 U.S.P.Q. 545, 495 F.2d 1265 (2d Cir. 1974), is wholly misplaced, since the court in that case specifically distinguished situations similar to the present case which "excuse[] limited use for legitimate business reasons." 181 U.S.P.Q. at 549 & n.10, 492 F.2d

<sup>&</sup>lt;sup>18</sup>At present there are embargoes on United States trade with Iran, Iraq, Libya and North Korea as well as Cuba. See 31 C.F.R. § 500 et. seq. Since the Second World War alone, there have been trade embargoes against an additional six countries. See n.10, ante. Under United States regulations, entities in all these embargoed countries have been permitted to register and maintain their trademarks in this country.

at 1273 & n.10. It is difficult to imagine a more legitimate reason for not using a mark than the fact that it is illegal to do so.<sup>19</sup>

Although the argument *ante* is sufficient to show that petitioners' claim of abandonment through nonuse must be dismissed, the petition itself provides further support for this argument. Despite the fact that Cubaexport was legally unable to sell their HAVANA CLUB rum in the United States, the petition indicates that Cubaexport and its assignees have been and are manufacturing and selling their HAVANA CLUB rum elsewhere. (Pet. 24, 27, 34.) While petitioners allege that Cubaexport's application for registration of the HAVANA CLUB mark was made "in bad faith for defensive purposes with the intent of foreclosing others from rightfully using the mark" (Pet. ¶ 27), they recognize that Cubaexport did in fact produce rum and established a HAVANA CLUB rum business outside the United States under the mark. (Pet. ¶ 24, 27, 34.) Petitioners' own allegations as to respondent's *conduct* thus do not give rise to any inference of abandonment, but to the contrary raise an inference of intent to use; if respondents are selling Cuban rum elsewhere in the world, there is no reason to believe that they will not sell it in the United States once it is legal to do so.<sup>20</sup>

<sup>&</sup>lt;sup>19</sup>It hardly needs discussion to reject petitioners' revolutionary notion that Congress's power over interstate commerce in general, its treaty-making power, and its authority to regulate the legal consequences of trade embargoes is not extensive enough to permit the registration and maintenance of foreign trademarks in the anticipation of resumption of trade rather than actual use. (Pet. Mem. pp. 28-31.) Indeed, such a position would invalidate TRIPS and the Paris Convention. (*See* Resp. Mem. pp.40-44.)

Respondents' argument that their nonuse of their mark is excused by the regulations barring such use is based on United States law. Consequently, the entire section of petitioners' memorandum arguing that Section 44 registrants are subject to United States requirements of use is meaningless. (Pet. Mem. pp. 28-31.)

<sup>&</sup>lt;sup>20</sup>The petition's concession that respondents are proprietors of a HAVANA CLUB rum business demonstrates the inconsistency of petitioners' allegations in their memorandum --

Although alternative pleading is permitted by Fed. R. Civ. P. 8, petitioners should not be permitted to proceed further on an entirely conclusory allegation that the owners of the HAVANA CLUB trademark had no intention to use the mark in this country when it was impossible for those owners to do so and when this allegation is so clearly undercut by other factual allegations of the Petition. *Cf. Donahue* v. *Pendleton Woolen Mills, Inc.*, 633 F. Supp. 1423, 1443-44 (S.D.N.Y. 1986) ("[a]lthough the Federal Rules of Civil Procedure permit plaintiffs to plead *alternative theories of liability*, plaintiffs do not have the luxury of pleading in the alternative within the same cause of action") (emphasis added).

- B. Petitioners Have Not Pleaded An Adequate Claim Of Abandonment Based On Alleged Assignments In Gross
  - 1. Petitioner's pleading rests on an incorrect proposition of law: that assignment of a trademark registered in the United States is always invalid when use of the mark in the United States is legally impossible

Petitioners rest their argument solely and entirely on a purported legal proposition that assignment of the United States registration of a trade nark is *always* invalid when use of the trademark within the United States is legally impossible; petitioners argue that "[a] valid assignment of the HAVANA CLUB and DESIGN mark *could not* have occurred at the time when it was (and is) unlawful to carry on the appurtenant business in the United States." (Pet Mem. p.23 (emphasis added).) This contention, however, is irreconcilable with this Board's recent holding in *Jose Ma. Arechabala Rodrigo* v. *Havana Rum & Liquors, S.A.*, Cancellation No. 22,881 (T.T.A.B. Oct. 19, 1995). In that case, the

allegations not made in the petition and therefore not part of the pleadings for purposes of this motion -- that the HAVANA CLUB mark had been abandoned by Cubans for ideological reasons. (Pet. Mem. p.22.)

Board was aware of Cubaexport's transfer of the HAVANA CLUB mark (including the United States registration of that mark) to Havana Rum & Liquors, S.A., and the subsequent transfer of the mark to Havana Club Holding, S.A., as part of a reorganization of the rum business while it was impossible to use the mark in the United States. A determination that the assignments were valid was thus a necessary part of the Board's decision that the mark had not been abandoned. Indeed, the petitioner in *Arechabala* similarly argued that the assignments of the very trademark at issue here were invalid assignments in gross that evidenced abandonment. Slip op. at p.10.

Consequently, *Arechabala* holds that, where a foreign registrant is legally barred from using its mark in the United States but is using it elsewhere in the world, assignment and transfer of the United States registration of the mark along with the foreign business does not constitute an invalid assignment in gross. Thus, petitioners cannot, as they seek to do, rest their claim on a rule that assignment of a trademark which cannot legally be used in the United States, by an entity with a foreign business that *is* using the mark, *per se* effects an abandonment of the mark. Accordingly, their claim must be dismissed.<sup>21</sup>

Moreover, petitioners' own allegations make it clear that the HAVANA CLUB mark was associated with a rum business outside the United States and that this HAVANA

<sup>&</sup>lt;sup>21</sup>A case cited by petitioners in a different context, *Maltina* v. *Cawy Bottling Co.*, 174 U.S.P.Q. 74, 462 F.2d 1021 (5th Cir.), *cert. denied*, 409 U.S. 1060 (1972), makes it clear that an assignment of a trademark may be valid in unusual circumstances when there is no ongoing business accompanying the mark. In that case, the former owners of a nationalized Cuban entity who had travelled to the United States assigned a trademark that they had used in Cuba to a newly-formed United States company. This assignment took place when there was no business using the mark in existence, and the mark in fact was not used in commerce for many years while the former owners attempted to set up a business in this country.

CLUB rum business was transferred along with the mark that symbolizes it. (Pet. ¶¶ 24, 34.)

Petitioners thus have alleged essentially the same facts as the Board in *Arechabala* found sufficient to reject an argument of assignment in gross.<sup>22</sup>

This Board's recent decision in *Arechabala* would control here even if there was some prior authority to the contrary, but petitioner has not cited to any such authority.

The lengthy quote from J.T. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18.01[6] at 18-19 (1995) cited by petitioners (Pet. Mem. pp.23-24 & n.10), simply does not address a situation comparable to that of this case, but the Board in *Arechabala* did address the very same situation. Moreover, *McCarthy* relies upon *Rogers* v. *Ercona Camera Corp.*, 277 F.2d 94 (D.C. Cir. 1960) and upon *Combined Oil Industries, Ltd.* v. *Oil Master, Inc.*, 209 U.S.P.Q. 646 (N.D. Ill. 1980), for the treatise's conclusions, and those cases make it clear that a trademark not yet in use may be transferred for potential use in a new business. Although McCarthy does state that this rule does not apply if at the time of transfer it was not possible to establish the potential business, the treatise adds the crucial qualifier (ignored by petitioners): "and in fact none was established." It is still impossible for respondents to use their mark in the United States, so it cannot yet be determined that no HAVANA CLUB

<sup>&</sup>lt;sup>22</sup>The petition's bare allegation that "no goodwill or related assets were conveyed with the purported trademark" in the assignments of the HAVANA CLUB mark (Pet. ¶¶ 34, 35), does not suggest that the assignments did not *on their face* convey all goodwill associated with the mark; indeed, the assignments were accepted and recorded by the PTO. (Pet. ¶¶ 34, 36.) Rather than alleging that these assignments were not accompanied by whatever goodwill and business each assignor possessed, petitioners argue only that there could not as a matter of law have been any goodwill to transfer.

business was ever established here.<sup>23</sup> Furthermore, the petition establishes that a HAVANA CLUB rum business has in fact been established outside the United States (Pet ¶ 24, 28, 34), so this is *not* a case where a mark that was never used at all was transferred for use in a new business.

Additionally, in *Combined Oil Industries*, cited by McCarthy, the court answered in the affirmative the question "whether it is possible to convey a right without a showing of prior use." The court relied on *E.F. Pritchard Co.* v. *Consumers Brewing Co.*, 136 F.2d 512, 520 (6th Cir. 1943), *cert. denied*, 321 U.S. 763 (1944), in which case an agreement was reached on the territorial use of a trademark before the mark was in use. The party challenging the agreement as invalid argued that the "trade-mark in question was not existent at the time of the agreement as to its use," *id.* at 520, but the court held:

With The Enemy Act, seized a German trademark. It was impossible for the Custodian to use the mark in the United States at the time of the transfer, however, because the mark's use on American-made goods would confuse consumers who recognized the mark as denoting German-made goods; and goods from Germany could not be imported at that time. In finding an invalid transfer in gross, the court stated that, "Upon termination of the first World War, it is possible that the Custodian or his successor in interest might have attempted to secure the right from [the German manufacturer] to import and sell its products in the United States [and hence begin use of the mark in this country]. This was not done, however, by the Custodian or his assignee . . . . " 277 F.2d at 99. Thus, the court suggested that, if the transferee of a mark which cannot be used at the time of assignment takes steps to use the mark after it is no longer impossible to do so, the transfer does not necessarily constitute an invalid assignment in gross.

We note that the facts as alleged here, in addition, point much more strongly in favor of respondents' right to the HAVANA CLUB trademark than the facts of *Roger*, where the result of the transfer deemed to be invalid was that the trademark and the product denoted by it were "owned" by two unrelated entities. In this case the HAVANA CLUB mark has been transferred along with the HAVANA CLUB rum business and unity of the mark and product remains intact. (*See* Pet. ¶ 34).

"[T]here appears no reason why a party, commencing a business, cannot secure a right to a trade-mark which he adopts in the incipient stage of a new enterprise. As said by Mr. Justice Holmes: "A trade-mark is not only a symbol for an existing good will although it commonly is thought of only as that. Primarily, it is a distinguishable token devised or picked out with the intent to appropriate it to a particular class of goods and with the hope that it will come to symbolize good will. Apart from nice and exceptional cases and within the limits of our jurisdiction, a trademark and a business may start together, and in a qualified sense the trademark is property, protected and alienable . . . .

Id. (quoting Beech-Nut Packing Co. v. P. Lorillard Co., 273 U.S. 629, 632 (1927) (emphasis in quotation).

Moreover, the facts as alleged in this case indicate far more strongly that the assignments of the HAVANA CLUB mark were valid than did the situations suggested as permissible in *McCarthy* and related authorities. These facts fully justified this Board's dispositive decision on the assignment in gross issue in *Arechabala*. Once again, respondents' claim to ownership of the HAVANA CLUB mark is not based solely on the "hope that it will come to symbolize goodwill" *E.F. Pritchard*, 136 F.2d at 520, but also on their ownership of the HAVANA CLUB rum business and the HAVANA CLUB trademark outside this country. Only after the trade regulations are lifted will it be possible to determine whether in fact a United States business was established using the mark. *McCarthy* § 18.01[6].<sup>24</sup>

<sup>&</sup>lt;sup>24</sup>Petitioners have not addressed respondents' argument that the General Inter-American Convention for Trade Mark and Commercial Protection, which is self-executing and to which both the United States and Cuba are signatories, requires recognition of the assignments at issue here. The Convention states that "[t]he transfer of the ownership of a registered . . . mark in the country of its original registration shall be effective and shall be recognized in the other Contracting States." Article 11, ¶ 1. (Resp. Mem. pp.39-40).

2. The allegations that Cubaexport used a different formula to make HAVANA CLUB rum than had been used by Arechabala, S.A. do not make out a claim that the assignments of the United States registration of the mark were invalid

Petitioners' argue in their *memorandum of law* that the assignments of the HAVANA CLUB mark were invalid because they were not accompanied by the formula previously used by Arechabala, S.A. for making HAVANA CLUB rum. Their *petition*, however, in truth makes no such allegation, but their argument is in any event wholly beside the point. The assignments at issue here could be called into question only if the formula for the HAVANA CLUB rum symbolized by the mark registered in 1976 had not been transferred from Cubaexport to Havana Rum & Liquors, S.A. and from Havana Rum & Liquors, S.A. to Havana Club Holding, S.A. Yet the petition makes no such allegation.<sup>25</sup>

Petitioners' attempt to tie the formula used more than 35 years ago to respondents' recent assignments is thus legally flawed. Cubaexport was under no obligation to use Arechabala S.A.'s disused recipe for rum since its registration was independent of any previous registration by Arechabala, S.A., and any goodwill in the mark as used by Cubaexport that was transferred to Havana Rum & Liquors, S.A. and then to Havana Club Holding, S.A., did not stand for a formula or standard of quality other than that used by Cubaexport at the time of the transfer. It is also flawed as a matter of pleading because the

<sup>&</sup>lt;sup>25</sup>The petition only alleges that Cubaexport used a different formula to make rum from that used by Arechabala, S.A., an unrelated company which formerly sold rum under the HAVANA CLUB mark in 1960. (Pet. ¶ 24.) Moreover, the petition does not even allege that Cubaexport did not have in its possession the supposed Arechabala, S.A. formula Arechabala, S.A. or that Cubaexport and Havana Rum & Liquors, S.A. did not transfer this formula along with its transfer of the HAVANA CLUB rum business -- it only alleges that Cubaexport did not *use* this formula.

petition does not allege that Cubaexport did not transfer the old Arechabala, S.A. formula for rum to its assignee, only that Cubaexport's HAVANA CLUB rum was not made according to that formula.<sup>26</sup> This allegation at most raises a claim of misrepresentation of source, a claim shown to be without merit *ante*. It does not raise a question of assignment in gross. For these reasons, there is no need to consider the import of the cases addressing assignment in gross cited by petitioners.<sup>27</sup>

Likewise, in *Pepsico Inc.* v. *Grapette Co.*, 163 U.S.P.Q. 193, 416 F.2d 285 (8th Cir. 1969) and *Green River Bottling Co.* v. *Green River Corp.*, 27 U.S.P.Q.2d 1304, 997 F.2d 359 (7th Cir. 1993), also cited by petitioners, a mark was transferred and a formula significantly changed during a period when the product was continuously marketed in the

<sup>&</sup>lt;sup>26</sup>Petitioners themselves are not the holders of the alleged secret recipe for HAVANA CLUB rum; petitioners only allege irrelevantly that they have access to a rum recipe originated by a totally different entity than Arechabala, S.A. (Pet. ¶¶ 7, 10), and nowhere suggest that they themselves are privy to any "secret formula" previously used by that company. Consequently, even if petitioners could allege in good faith that in 1976 the name HAVANA CLUB was recognized by United States consumers as denoting the products of Arechabala, S.A., any rum sold by petitioners in the United States under the name HAVANA CLUB would suffer from the same deceptiveness that they now allege would prevent respondents from using the mark.

<sup>&</sup>lt;sup>27</sup>Those cases, in any event, are irrelevant to a situation where the alleged former user of a trademark for rum ceased using the mark in connection with any formula for rum many years before a new entity applied to register the mark in connection with rum. In Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc., 43 F.2d 937 (2d Cir.), cert. denied, 282 U.S. 881 (1930), "4711" cologne had been continuously sold in this country and advertised as being made according to a secret formula for so long that there had been "impressed upon the mark a substantial guarantee that any cologne bearing said mark was made according to said original recipe." Id. at 939. In this case, the petition makes it clear that HAVANA CLUB rum has not been sold continuously in this country; in fact, it has not been sold for thirty-five years. (In addition, no allegation of broad public awareness that HAVANA CLUB rum was ever made according to a secret formula has been set forth by petitioners here.) Similarly, in Baglin v. Cusenier Co., 221 U.S. 580 (1911), a trademark used on the well-known liqueur "chartreuse" was purportedly seized by the French government; it was then used simultaneously by the government and the original owners, who used a secret recipe and immediately after the seizure set up a new factory and continued to make their product. There was no lengthy hiatus in sales of the product in that case, and the court held that the original users of the mark had the right to use it on products made according to their secret recipe.

# IV. PETITIONERS HAVE NOT PLEADED AN ADEQUATE CLAIM OF "MISREPRESENTATION OF THE GOODS" OR "UNCLEAN HANDS"

Apparently recognizing that they have not pleaded a valid claim of deception under Section 2(a) of the Lanham Act, petitioners attempt to save their demonstrably unfounded (*see* Resp. Mem. pp.31, 48-50) grounds for cancellation entitled "Misrepresentation of the Goods" and "Unclean Hands" by stating that these claims "fit under the rubric of abandonment through loss of trademark significance." (Pet. Mem. p.26 n.12.) There is no legal basis whatsoever for such an assertion on the facts as alleged in the petition.

Abandonment through loss of trademark significance occurs only when a trademark owner makes a naked assignment or engages in naked licensing of a mark, when the mark becomes a

United States. In addition, the transferee in each of those cases attached the transferor's mark to a different product than had been sold by the transferor. In this case, in contrast, the petition sets forth a fourteen-year period where the HAVANA CLUB mark was not used in the United States with *any* formula before Cubaexport registered its mark for use with an allegedly different formula. There is also no allegation here that the successive owners of the HAVANA CLUB mark subsequent to 1974 have not all marketed exactly the same product (although not in the United States) since they began using the mark in Cuba and registered it in the United States.

Liquid Glass Enterprises Inc. v. Liquid Glass Industries of Canada Ltd., 14 U.S.P.Q.2d 1976, 1979 (E.D. Mich. 1989), again cited by petitioners, makes it clear that the question whether an assignment of trademark is an invalid assignment in gross is not invariably dependent on whether the transferee of the mark markets a product made according to the same formula as was used by the assignor. The court in Liquid Glass cited Glamorene Products Corp. v. Procier & Gamble Co., 190 U.S.P.Q. 543, 538 F.2a 894 (C.C.P.A. 1976), in which the court held that the assignment of the mark BOUNCE from one company which sold dry cleaning products to another unrelated company which intended to use the mark on its own different dry cleaning products was not an invalid assignment in gross because "transfer of tangible assets (inventory labels, customer lists, formulas, etc.) is not necessary to an effective trademark assignment." 190 U.S.P.Q. at 545, 538 F.2d at 895-96. Thus, even apart from all the other defects in petitioners' allegations of abandonment based on a change in formula of the HAVANA CLUB rum, the bare allegation that a formula for a very similar product was altered after transfer of a mark does not in and of itself make out a claim of abandonment.

generic name for the product, or where the trademark owner fails to take action against infringers of the mark. See J. Gilson, 1 Trademark Protection and Practice § 3.06[9] at 3-214 - 3-215 (1995). The petition contains no such allegations.

Petitioners' attempt to argue loss of trademark significance on an allegation that respondent's mark could be confused with the mark formerly used by Arechebala is also baseless. Petitioners have wholly failed to address *Girard Polly-Pig, Inc.* v. *Polly-Pig by Knapp, Inc.*, 217 U.S.P.Q. 1338 (T.T.A.B. 1983), which held that abandonment through loss of significance does not occur when the only claim is that use of the mark by one entity may be confused with another entity's use of the mark. Such confusion is the most that petitioners allege here, however, and they have therefore failed to plead a proper claim of abandonment through loss of significance. (Resp. Mem. p.49.)

In addition, petitioners have evidently abandoned any claim that the mark HAVANA CLUB is deceptively misdescriptive and simply argue incorrectly that misrepresentation of goods is grounds for abandonment. In any event, as demonstrated in respondents' memorandum of law, petitioners have patently failed to allege adequately that the HAVANA CLUB mark is deceptively misdescriptive. (Resp. Mem. pp. 28-31.)

Petitioners have barely responded to respondents' argument that the mark HAVANA CLUB is not in and of itself deceptive (Resp. Mem. pp.28-31), attempting to distinguish *Gold Seal Co.* v. *Weeks*, 105 U.S.P.Q. 407, 129 F. Supp. 928, 934 (D.D.C. 1955), *aff'd sub nom. S.C. Johnson & Son, Inc* v *Gold Seal Co.*, 180 U.S.P.Q. 400 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956) on irrelevant facts rather than addressing that case's statement that "deception is found when an essential and material element [of a product] is

misrepresented [by a trademark], and is the very element upon which the customer relies in purchasing one product over another." Petitioners argue that the "quality, formula, and method of making" rum are misrepresented by respondents' use of the HAVANA CLUB mark, but the HAVANA CLUB mark does not in and of itself represent *anything* about the qualities of the rum sold under the mark, except perhaps that the rum is made in Cuba (which is true and not deceptive even on the facts of the petition).

In In Re Budge Mfg. Co., Inc., 8 U.S.P.Q.2d 1259, 1260, 857 F.2d 773, 775 (Fed. Cir. 1988), cited by petitioners, the court stated that the test for whether a mark is deceptively misdescriptive has three parts:

- (1) Is the term misdescriptive of the character, quality, function, composition or use of the goods?
- (2) If so, are prospective purchasers likely to believe that the misdescription actually describes the goods?
- (3) If so, is the misdescription likely to affect the decision to purchase?

Petitioners' assertion that "respondents must be deemed to have changed the quality, formula, and method of making HAVANA CLUB rum from that used by Jose Arechabala, S.A. for the purpose of deceiving potential customers" (Pet. Mem. p.27) not only contains assertions not made in the petition, which is silent as to quality and method, but also does not address the requirements of the *Buckge* standard. In *Budge*, the court determined that the term LOVEE LAMB for use on synthetic car seat covers not made of lambskin deceptively misdescribed the goods. Petitioners have not alleged that any part of the words HAVANA CLUB misdescribes the character, quality, function or composition of rum; nor that purchasers would

believe any misdescription, nor that purchasers would base their decision to purchase rum on any such misdescription. Their claim must therefore be dismissed.

Finally, in asserting again that "unclean hands" has some relevance here, petitioners apparently forget that cancellation of a registration over five years old may be sought only on the limited grounds set forth in Section 14(3) of the Lanham Act. "Unclean hands" is not a statutory ground for cancellation set forth in Section 14(3) of the Lanham Act, and petitioners have not surprisingly been unable to cite a single case where unclean hands was deemed a basis for cancellation.

## V. PETITIONERS SHOULD NOT BE GRANTED LEAVE TO REPLEAD THE PETITION

Petitioners should not be granted leave to replead their petition for cancellation. As demonstrated in respondents' moving papers and ante, the failure of the petition to make out a claim upon which relief can be granted is not due to errors of pleading but, rather, on the fact that petitioners' legal theories are untenable. The Board's recent decision in Arechabala settled (by answering in the affirmative) the only even-arguably serious legal question that could have been raised with respect to respondents' mark: whether the respondents' nonuse of the mark in the United States is excused by United States regulations barring such use.

Remarkably, in arguing that they "should be granted leave to amend the petition" (Pet. Mem. p.1), petitioners have not stated what new allegations they would make if permitted to do so. Most striking is their failure to suggest that they could allege use of the mark by anyone in the United States when Cubaexport applied to register it, despite the fact that respondents pointed out repeatedly in their moving papers that petitioners' fraud claims

failed because they had not so alleged. Petitioners' request to be permitted to replead without stating that they would plead another's use of the mark contemporaneous with respondents' registration, and without otherwise specifying what additional facts they would plead, trifles with the Board's time.

If this Board is nevertheless prepared to grant petitioners leave to replead their petition, the Board should specify exactly what allegations they would need to make in order to state a cause of action. These would include an allegation that the HAVANA CLUB mark was in use in the United States when Cubaexport applied to register the mark, and that the mark continues to be used.

Finally, in the unlikely event that this Board should find that petitioners have adequately pleaded any cognizable cause of action, the Board should dismiss the other claims rather than permitting petitioners to go forward with burdensome and expensive discovery upon the entirety of their rambling petition.

## Conclusion

For the reasons stated in respondents' memorandum of law and ante, the petition should be dismissed.

Dated: New York, New York April 1, 1996

Respectfully submitted,

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#### **CANCELLATION NO. 24108**

### CERTIFICATE OF EXPRESS MAILING AND SERVICE

Date of Deposit: April 1, 1996

I hereby certify that this Reply Memorandum Of Law In Further Support Of Respondents' Motion To Dismiss The Petition is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service under 37 C.F.R. § 1.10 on the date indicated above, addressed to:

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